

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**REPORT ON THE REVIEW  
OF THE  
WORKER'S COMPENSATION PROGRAM  
WITHIN THE DEPARTMENT OF  
EMPLOYMENT SERVICES**

**CHARLES C. MADDOX, ESQ.  
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL



Inspector General

January 25, 2001

Gregory P. Irish  
Director  
Department of Employment Services  
500 C Street, N.W., Room 600  
Washington, D.C. 20001

Dear Mr. Irish:

Enclosed is the final report on the audit of Workers' Compensation Program within the Department of Employment Services (DOES). This audit was conducted by contract under the purview of the Office of the Inspector General. The audit disclosed weaknesses that impacted the achievement of efficiency and effectiveness and compliance with applicable laws and regulations in the Workers' Compensation Program. Examples of areas needing improvement include:

1. Funds due from insurance carriers and self-insured employers were not assessed and collected in a timely manner. Also, compliance with D.C. Law 12-229, which requires that funds must be collected by the beginning of the fiscal year, was not achieved. For example, assessment notices for payments due were mailed to employers December 27, 1999. As of April 10, 2000, assessments totaling more than \$3.3 million were more than 57 days past due, resulting in approximately \$30,000 in lost interest revenue. An additional \$93,000 was lost in interest income because about \$3.6 million in premium surcharges were not collected timely.
2. Inadequate controls in the case management process, such as DOES' failure to perform adequate periodic and follow-up reviews. For example, an approved disbursement was not paid for more than ten years.
3. Inadequate safeguarding of surety bonds in the record management function. We found several surety bonds posted by self-insured employers unsecured in the DOES office area.

Although DOES did not fully agree with the results of the audit, management concurred with most of the conditions noted and indicated that it has remained active in designing and instituting

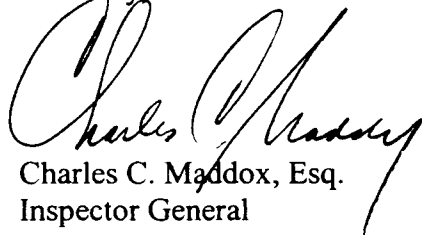
corrective action measures. Accordingly, DOES' comments (Appendix B) to the draft report are generally responsive to the intent of the recommendations. However, DOES did not agree with recommendation 3 and, therefore, we consider this recommendation to be unresolved.

We would like to emphasize that the conditions noted on pages 8 and 9 of the report under the caption "Program Expenditures" were caused by a court mandate instead of management control deficiencies. This condition was isolated rather than systemic according to new information provided by DOES.

Generally audit recommendations should be resolved within 6 months of the date of the report. Accordingly, we will continue to work with DOES to reach final agreement on the unresolved recommendation in this report. DOES' final comments on the unresolved issues should be provided within 60 days of the date of this report.

Should you have questions about this report, please call me or William J. DiVello, Assistant Inspector General for Audits, on (202) 727-2540.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles C. Maddox". The signature is fluid and cursive, with the first name "Charles" being more prominent and larger than the last name "Maddox".

Charles C. Maddox, Esq.  
Inspector General

CM/WD/ws

Enclosure

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## EXECUTIVE SUMMARY

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### Introduction

The District of Columbia Office of the Inspector General (OIG) contracted Williams, Adley & Company, LLP (WA&Co) to provide professional services in the areas of financial, operational, and compliance reviews of selected functional areas within the Department of Employment Services (DOES), as well as a detailed performance review of the agency. One of the functional areas reviewed is the Workers' Compensation Program (the Program) within the Department of Employment Services, Office of Workers' Compensation (DOES-OWC).

The overall objectives of our review were to determine: (1) the propriety of expenditures incurred by the Special and Administration Funds; (2) compliance of the Program expenditures with the provisions of D.C. Code §36-340 for the Special Fund and §36-341 for the Administration Fund; (3) program efficiency, effectiveness, and program risk management; and (4) the potential areas for cost recoveries and future savings. This report presents the results of our review performed during the period March through August 2000. A separate report is issued for each of the other functional areas reviewed.

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### Results in Brief

During the review of the Program, we identified the following deficiencies:

1. Funds due from insurance carriers and self-insured employers are not assessed and collected in a timely manner. Also, compliance with D.C. Law 12-229, which requires that funds must be collected by beginning of fiscal year, was not achieved. For example, assessment notices for payments due were mailed to employers December 27, 1999. As of April 10, 2000 assessments totaling more than \$3.3 million were more than 57 days past due resulting in approximately \$30,000 in lost interest revenue. An additional \$93,000 was lost in interest income because about \$3.6 million in premium surcharges were not collected timely.



2. Significant weaknesses in the payment process such as a failure to (1) assess the reasonableness of claimant's medical and indemnity expenses and (2) verify the claimant's continued eligibility for Program benefits. For example, we found cases where the agency paid about \$663,500 for a claimant, which included \$436,154 for a treatment received in Switzerland, and another \$196,500 in indemnity payments to two other beneficiaries on temporary injury status since 1985.
3. Inadequate controls in the case management process such as DOES-OWC failure to perform adequate periodic and follow-up reviews. For example, an approved disbursement was not paid for more than ten years.
4. Inadequate safeguarding of surety bonds in the record management function. We found several surety bonds posted by self-insured employers unsecured in the DOES-OWC office area.
5. Inadequate reporting of program costs because salaries of employees not working on the program are included as part of the program cost.

The implementation of procedures to correct the above noted deficiencies will significantly improve the Program efficiency and effectiveness and significantly reduce the potential for waste, fraud and abuse.

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**Summary of  
Recommendations**

The DOES director should immediately implement the following recommendations:

1. Procedures to ensure that the assessment notices are sent out in a timely manner to ensure collection of assessments no later than October 1. This will ensure compliance with D.C. Law 12-229, and prevent taxpayer monies being used to pay for program expenses.
2. Procedures to ensure that the medical and indemnity



expenses are reasonable, paying particular attention to claims outside of normal parameters. Justification supporting payment of large and unusual claims must be documented in the claim files.





3. A review of all cases to determine cases that should be re-evaluated and/or terminated.
4. That the surety bonds are sent to the Treasury and within a specified time period of receiving the surety bonds, the Treasury should inform DOES-OWC of all the surety bonds it receives. Control procedures should be established to ensure that this communication occurs in a timely and complete manner. DOES-OWC should not certify the applicants as self-insured employers until they confirm with the Treasury that the surety bonds in the required amounts were received.
5. Ensure that salaries of only the employees working on the program are included as program costs.

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**Summary of  
Management's  
Comments**

The Director of DOES stated that the Department appreciates efforts expended by the auditors in conducting their investigations, but that disclosures outlined in the report clearly symbolizes a misunderstanding of many of the operational components and processes associated with the Office of Workers' Compensation (OWC). However, he concurred with most of the conditions noted and indicated that Management has remained active in designing and/or instituting corrective action measures.

The Director also disclosed that the case cited by the auditors involving treatment in Switzerland was an isolated incident resulting from an adjudicatory action.

Full text of Management response to the findings and recommendation is attached to this report as Appendix B.

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**Evaluation of  
Management's  
Comments**

DOES Management concurred with most of the conditions noted and recommendations made in this report. DOES Management also indicated that new procedures are being implemented to correct the conditions noted.

We recommend that the Office of the Inspector General perform a follow-up review to ensure the implementation of the recommendations and new controls put in place by DOES to improve efficiency and effectiveness.



Our evaluation of the Management comments on each of the findings and recommendations are listed as Appendix A.



## INTRODUCTION

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### Background

DOES-OWC functional responsibility is to administer the Program in accordance with the Workers' Compensation Act of 1979, D.C. Law 3-77, as amended. This Act requires that persons who are injured in the performance of their duty while working for private employers in the District be properly compensated.

The Program fulfils its functional responsibility through two funds; namely, the Special and Administration Funds. The Special Fund incurs expenditures in providing benefits in cases of uninsured employers or in instances where an injury combines with a pre-existing disability to cause a substantially greater disability. The Administration Fund incurs expenditures for the administering of the Program. These expenditures are funded by assessments paid by insurance carriers and self-insured employers on behalf of employers in the District. For the fiscal year 2000, the estimated assessments due the Special and Administration Funds were \$5,000,000 and \$10,394,000 respectively.

DOES-OWC processes claims, approves lump-sum payments, monitors the payment of benefits by private insurance carriers and self-insured employers to injured private sector employees. It also conducts informal conferences and mediation conferences to resolve disputes between claimants and employers and/or their insurance carriers. DOES-OWC also certifies self-insured employers and monitors employers to ensure compliance with insurance coverage requirements.

Williams, Adley & Co., LLP has been requested by the OIG under Contract No. OIG-9801-WMAC-AUD to provide professional services in the areas of financial, operational, and compliance reviews of selected functional areas within DOES as well as a detailed performance review of the agency. This report addresses the findings and recommendations related to the Workers' Compensation Program. A separate report is issued for each of the other functional areas reviewed under the aforementioned contract.



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**Objectives, Scope, and Methodology**

The objectives of our work were to determine: (1) the propriety of expenditures incurred by the Special and Administration Funds; (2) compliance of the Program expenditures with the provisions of D.C. Code §36-340 and §36-341; (3) Program efficiency, effectiveness and program risk management; and (4) the potential areas for cost recoveries and future savings.

We reviewed applicable laws, policies, procedures and pertinent documents. We interviewed responsible DOES-OWC officials to obtain information about the claims, assessments, insurance, and reporting processes. We evaluated the policies and procedures implemented in the *Funding and Expenditure Cycles* to ensure an effective and efficient program.

We requested that DOES-OWC provide us with expenditure and funding data and information for fiscal year 2000. In the payment process, we randomly selected a sample of expenditures from both the Special and Administration Funds and performed appropriate testing to determine the propriety of the expenditures. In the assessment and collection process, we randomly selected a sample of assessments from both the Special and Administration Funds and performed appropriate testing to determine the propriety of the assessment and collections. This included our verification of the computation of the assessments due from insurance carriers and self-insured employers to ensure their accuracy and compliance with D.C. Law 12-229, as amended, dated April 16, 1999, effective for policies created or renewed on or after October 1, 1999.

In our operational review of the Special and Administration Funds, we used specific indicators in both the *Funding and Expenditure Cycles* for operational efficiency determination and report and collection delinquency. We also reviewed general control elements such as the clarity of recorded instructions, adequacy of training, completeness record of transactions and events, authorized execution of events, and supervisory review of completed work.

Our review was performed from March 1, 2000 through August 4, 2000 utilizing agreed upon procedures. The procedures were performed in accordance with generally



accepted government auditing standards and included such tests as considered necessary to fulfill objectives of the review plan. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.



## REVIEW RESULTS

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### Review Findings

During our review we noted many weaknesses that impede the achievement of efficiency and effectiveness and compliance with applicable laws and regulations in the Program. The primary problems we noted are inadequate controls in the (1) assessment and collection process, (2) case management process (3) record keeping function and (4) the potential negative impact these weaknesses may have on the District of Columbia (District) business climate.

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### Delinquent Collections

We found that DOES did not ensure timely collection of the assessments. As of April 10, 2000, \$856,568 of the assessments due the Special Fund was over 70 days delinquent. For the same period, \$2,532,679 of the assessments due the Administration Fund was 59 days delinquent.

We noted that DOES-OWC does not track past due amounts, past due assessments are not aged, aging reports are not prepared and monitored, and delinquent collection notices were not sent out to insurance carriers and self-insured employers.

Because DOES failed to aggressively collect past due payments, the District has lost interest revenue of approximately \$29,679 based on the US Treasury Current Value of Funds Rate (CVFR) stipulated at 5 percent in the Federal Register. Also, additional interest income is lost because the District has used its own funds for up-front payment of program expenditures.

We also found that DOES-OWC did not have procedures in place to ensure that insurance carriers and self-insured employers file their quarterly reports in a timely manner.

Only twenty-eight percent of the fiscal year 1999 fourth quarter's reports reviewed were received timely. We were unable to determine the receipt date of forty-three percent of our sample because the mailroom failed to date stamp the reports as required by DOES-OWC established policies and procedures.



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Premium Surcharges	<p>We also found that the DOES-OWC has not collected a significant portion of the premium surcharge due the Special Fund from each insurance carrier. DOES-OWC was able to collect only \$334,305 or 8.36% of the \$3,995,002 due the Special Fund in premium surcharge assessments as of April 10, 2000.</p> <p>Because DOES failed to collect a significant portion of the premium surcharge, the District has lost interest revenue of approximately \$92,982 based on the US Treasury Current Value of Funds Rate (CVFR) stipulated at 5 percent in the Federal Register.</p> <p>According to regulations, D.C. Law 12-229, insurance carriers are required to pay surcharges on premiums collected from employers. These premiums are reported to the District's Insurance Administration Office that will then notify DOES-OWC.</p>
Compliance with D.C. Law 12-571	<p>The new amendment to the Program's Act, D.C. Law 12-229 requires self-insured employers and carriers to directly fund the expenditures incurred by the Special and Administration Funds through the payment of assessments. The intent of the law is that the District government would no longer fund these expenditures up-front and at the end of the year be reimbursed by the self-insured employers and carriers. Our review indicated that the current year's assessment billings were mailed to employers 12/27/99, 1/11/00 and 1/12/00 with due dates of 1/26/00 and 2/11/00. This means that the expenditures incurred and paid during the first and most of the second quarters were not funded pursuant to the D.C. Law 12-229 but were funded with the reimbursements due the District government for their payments of the Program expenditures in the prior year.</p> <p>We found that this condition occurred because DOES-OWC failed to identify the operational requirements needed to support the new amendment that became effective at the beginning of the current fiscal year. We also found that the assessment determination process was highly inefficient, and the collection policies and procedures were either missing or not being followed by DOES-OWC personnel. According to DOES management, this situation occurred because the complete data needed to determine the assessment</p>

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charges were not available in a timely manner.

Assessment Determination Process	<p>The assessment determination process for the period under review was a laborious task for the DOES-OWC Insurance Division because the department did not utilize its automated capability. Many labor hours were spent manually determining the compensation paid in the prior year by and the assessment due from each self-insured employers and carriers. As of the end of the review period, it appears that DOES-OWC Insurance Division will again have to repeat this process for fiscal year 2001.</p> <p>Although all the quarterly information from insurance carriers and self-insured employers that are required to calculate the assessment charges is inputted in the automated system, DOES-OWC has failed to create a program that performs this determination and generates the pertinent notification letters to carriers and self-insured employers.</p>
Case Management	<p>Our review indicated that DOES-OWC did not perform periodic reviews of claimant's condition. Also, adequate follow-up of those reviews performed that questioned the validity of the claimant's condition was not performed. This failure increases the risk for fraud in the Program and erodes its integrity. We noted in our test sample that claimants whose injuries were classified as temporary partial disability and who began receiving workers' compensation benefits in 1985 continued to receive automatic check payments biweekly without an adequate determination of their continued eligibility for these benefits.</p> <p>Our review also indicated that in cases where the validity of the claimant's inability to work was questioned as a result of medical examinations and/or where vocational rehabilitation was recommended to get the claimant back to work, DOES-OWC ignored these reviews and continued paying benefits.</p>
Benefit Payments	<p>We noted that DOES-OWC did not process claims and Special Fund reimbursement requests efficiently to ensure compliance of disbursements with applicable regulations. D.C.M.R Title 7, § 231.15 states:</p>





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*"Upon completion of his or her review and within thirty (30) days of the receipt of the request for reimbursement, the Associate Director shall disburse from the Special Fund the payments to which he or she finds the employer entitled."*

In our testing of 20 items, covering 79% of Special Fund payments for fiscal year 1999, none was reimbursed within the 30 days as required. We were unable to determine the receipt date of 16% of the related requests for reimbursement because the mailroom did not stamp the date of receipt on the documents as required by established policies and procedures. One of the cases we reviewed for reimbursements indicated DOES-OWC noncompliance with the applicable regulation and the severe inadequacy of the control policies and procedures in the case management process.

In this case, DOES Assistant Corporation Counsel informed DOES-OWC on July 16, 1991 of the settlement reached with one employer and requested that payment be processed at DOES-OWC earliest convenience. On January 8, 1993 the carrier submitted a request for reimbursement, it is unknown if an earlier request was made. This request was followed by subsequent requests for reimbursement on October 5, 1994, September 21, 1995 and February 11, 2000. Each of these requests for reimbursement referred to the prior requests and the need to be reimbursed. DOES-OWC failed to respond to the carrier's request for seven years and finally processed the reimbursement on February 22, 2000.

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**Reporting Requirement**

The new reporting requirements of D.C. Law 12-229 demand statistical information on processed claims. Presently, there are numerous work-around reports and databases from which the information used in the preparation of the annual Program report is obtained. DOES-OWC spent many labor hours gathering and aging data that are in the automated system for the preparation of the fiscal year 2000 annual Program report.

It appears that this inefficient process would be repeated in the preparation of the fiscal year 2001 annual Program report because DOES-OWC has failed to create a program that ages the claims and



present claim data pursuant to the new reporting requirements.

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**Record Keeping**

We noted inadequate safeguarding of bond documents. Bonds that should have been secured by the District's Treasury were kept for months at DOES-OWC. We also noted instances where there were no records of bonds from self-insured employers. In prior years, self-insured employers were required to obtain bonds and send the bonds to the District Treasury. However, the District Treasury did not provide DOES-OWC with the bond information or did not do so in a timely manner, and DOES-OWC did not verify if the self-insured employers did indeed obtain the bonds and in the required amounts.

To alleviate this problem in fiscal year 2000, DOES-OWC informed the self-insurers to submit the bonds directly to DOES-OWC with the intention of forwarding the bonds to the Treasury.

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**Program Expenditures**

There are weaknesses in the *Expenditures Cycle* that impede DOES-OWC' ability to curtail the Program expenditures and ensure the propriety of expenditures.

These weaknesses include (1) failure to assess the reasonableness of expenditures prior to reimbursement, (2) failure to periodically verify the continued eligibility of claimants, (3) failure to aggressively promote vocational rehabilitation for claimants to get them back to work, and (4) inadequate controls over the administration of the Program.

We found that DOES-OWC approved and authorized payments from the Special Fund for costs that appear to be unreasonable and excessive. In our review of a claimant's file, we noted that DOES-OWC in fiscal year 2000 reimbursed a carrier \$227,357 that comprised of \$81,255.26 in indemnity payments and \$146,101.84 in medical expenses. Most of the claimant's medical expenses were incurred during the claimant's many visits to the hospital where the claimant stayed in deluxe private rooms at the nightly rates of \$1,000, \$955 and \$945.

Additionally, it should be noted that the Special Fund had previously paid other reimbursements for the medical



expenses of the claimant that included \$436,154.30 for one of the claimant's many visits for medical treatment in Switzerland. It appears that this treatment could have been received in the United States at a cheaper cost.

DOES-OWC failed to perform adequate periodic reviews and follow-up of reviews to determine the continued eligibility of claimants. Twenty-four percent of expenditure transactions reviewed were biweekly payments made to two claimants who had sustained temporary partial disability in 1985 and as of our review date, April 10, 2000 continued to receive automatic biweekly payments made from the Special Fund. For fourteen years these two claimants collected approximately \$196,500 for temporary injuries without DOES-OWC verifying their continued eligibility for benefits or ensuring that these claimants received vocational rehabilitation to put them back to work.

Our testing of the Special Fund expenditures also indicated that medical opinions and recommendations for vocational rehabilitation were ignored. In his June 9, 1999 medical report, a doctor stated that he was surprised that the claimant who sustained an injury in 1984 was not allowed to work "given the benign findings" of his examination. As of the review date, DOES-OWC took no follow-up action.

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Allocation of Personnel  
Cost

Our review also indicated shifting of personnel cost from other Programs at DOES to the Workers Compensation Program. We noted that salaries of employees who are not involved in the administration of the Program, but are officially assigned to it for Labor Distribution Rule on their *Personnel Action Form*, D.C. Standard Form 52, are included in costs reported on the Program in the SOAR, the District's financial system. We also noted that although the labor distribution is erroneous, the DOES-CFO certifies the assignment for labor distribution as correct in the personnel cost reported to the US Department of Labor.

The underlying reason for this occurrence is that a person is hired even though a vacancy may not exist in the hiring program/grant office. The hiring is done as long as there is a vacancy within DOES. The hiring and the assignment codes for labor distribution for the new employee



(captured on the Form 52) are dictated, not by the employee's actual functional responsibility and program office to which the individual is assigned but by the program/grant office from which the vacancy originated. Therefore if the DOES-OCFO needs an employee but has no vacancies and the DOES-OWC has vacancies, then the DOES-OCFO hires the employee but labor distribution assigns that person to the Program.

This DOES action impedes operational efficiency and increases the risk of erroneous reporting, excessive Administration Fund expenditures, excessive costs to the employers and insurance carriers and ultimately excessive cost to do business in the District.

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**Conclusion**

Employers in the District are negatively impacted by the weaknesses noted in DOES-OWC's management of Special Fund claims. Firstly, the lack of adequate periodic reviews and subsequent follow-up increase the risk of the perpetration of fraud and payment of compensation to claimants who are no longer eligible for these benefits. An increase in the payment of fraudulent and invalid claims increases the Special Fund expenditures. Since employers in the District fund these expenditures by the payment of assessments, such a risk also increases the costs of doing business in the District and therefore constitutes a risk to the District's tax base.

Secondly, DOES-OWC disregard of D.C.M.R Title 7, § 231.15 that requires payment of reimbursement within thirty days of receipt of the request for reimbursement undermines the Program's credibility and makes doing business in the District an inefficient and financially burdensome endeavor.

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**Recommendation**

We recommend that DOES-OWC implement the following recommendations to facilitate operational efficiency and effectiveness; to promote prudent fiscal control; and to minimize the risk of noncompliance with applicable rules and regulations, and prevent waste, fraud, and abuse in the Program:

- 1a. Establish aggressive policies and procedures to collect past due assessment amounts from carriers and self-insurers. Soon after the deadline date, the outstanding amounts due from carriers and self-



insurers should be determined. DOES-OWC should initiate phone contact with the carriers and self-insurers reminding them of the deadline date and the need to make timely payments. An *Aging Report* should be prepared and reviewed monthly. Dunning letters should be mailed out to all delinquent carriers and self-insured employers at established delinquency intervals. The interest charged for delinquency should be calculated and shown as a separate line item in the Dunning letters – this might serve as a deterrent to delinquency and increase likelihood of collections.

- 1b. Develop policies and procedures to determine the premium surcharge assessments amount that is due from each carrier. The procedures should include obtaining information on the total premium amount received by each insurance carrier from District's employers from the District Insurance Administration. To this total, DOES-OWC should apply the premium surcharge and in this way establish the assessment receivable from each carrier and periodically verify the premium surcharge payments from carriers. Follow-up procedures should be established and taken to resolve any discrepancies. At the end of the year, the actual should be compared to the payments and the appropriate action taken.
- 1c. Prepare a standard operations policies and procedures manual for the Program.
- 2a. Establish benchmarks for the average recovery period for injuries, especially temporary injuries, in their AS-400 automated system. When temporary disability claims exceed the benchmark period, the system should generate a *Case for Review Edit Report*. These claimants should then be subjected to an examination of their status. Control procedures, such as supervisory reviews, should be established to ensure that this review is performed and all significant issues are resolved.
  - ✓ Early in the disbursement cycle and prior to disbursement of funds from the Special Fund, the reviewer should review the age of the injury and determine its reasonableness prior to his approval for payment.



- ✓ Perform periodic reviews of permanent and temporary Special Fund claim cases. There should be resolution of questions or concerns of the validity of the claimant's rights to benefits. Controls should be established to ensure that these are performed and those that need to be resolved are indeed resolved.
- 2b. Establish guidelines for costs that would be considered excessive and disallow such costs when reimbursement is requested unless a compelling justification for approval is provided.
- 3a. Implement an aggressive vocational rehabilitation policy to get claimants back to work. The Special Fund should not finance a life long vacation from the socioeconomic requirement to be gainfully employed. Once injured and compensated by the Special Fund, OWC should ensure that these claimants are obtaining the vocational rehabilitation that they need to get back to being employed.
- 3b. Establish a processing time line for the claims reimbursement cycle. This time line must be designed with the consideration of two factors. The first factor is that the date that OWC receives the request for reimbursement to the disbursement date should not exceed thirty days. The second factor is that within that thirty-day period the DOES-OWC Claim Division must forward the reviewed and approved request with the applicable payment authorization to data entry with an allowance of more than ten working days before the end of that thirty-day period. This second factor is important because actual disbursement automatically occurs ten working days after data input.
- 3c. Establish policies and control procedures based on the processing timeline developed. The objective of these procedures should be to ensure that the timeline related policies are adhered to throughout the claims reimbursement cycle – especially in the Claims Division. Strict supervisory review and quality performance by employees should be emphasized. Additionally, organizational objectives and goals for



OWC should also be established as they relate to claims processing and employees' performance should be evaluated based on the quality of their contributions towards the achievement of these organizational goals and objectives.

- 4a. Bonds should be sent to the Treasury and within a specified time period of receiving the bonds, the Treasury should inform DOES-OWC of all the bonds it receives. Control procedures should be established to ensure that this communication occurs in a timely and complete manner. DOES-OWC should not certify the applicants as self-insured employers until they confirm with the Treasury that the bonds in the required amounts were received.
- 4b. Establish controls, such as supervisory reviews, to ensure that the mailroom date stamps the mail received.
- 5a. When an office/division in DOES needs to hire an employee, that office should first ensure that there is a vacancy in the hiring office prior to actually hiring the employee.
  - ✓ Labor distribution on the *Personnel Action Form*, Form 52, should be correctly completed; i.e., the ARC assigned to the employee should be that for the employee's actual functional responsibility at DOES.
  - ✓ Employees who perform tasks that constitute indirect costs or tasks across program lines should not be assigned a direct cost ARC on their Form 52. Such employees should be assigned the multi-task ARC.
  - ✓ Once the above three steps are implemented, the discrepancy between SOAR's Administration Fund Expenditures Report for personnel expenditures (which ties to DOES Payroll Report) and FAR would be restricted to the allocation of indirect costs and multi-program costs. DOES should then reconcile these systems on a monthly basis.



- ✓ DOES should ensure that the payment of personnel expenditures by the Administration Fund is restricted to those employees who are actually involved in the administration of said program.
- ✓ DOES should work on having an integrated financial reporting system.

5b. Utilize the automated system fully. Included in the greater utilization of the system should be:

- ✓ An assessment program to prorate the budgeted amounts for both the Special and Administration Funds, determine the premium surcharge rate once the total premium data is inputted into the system at the end of the year and generate the notification letters to the carriers and self-insurers. Additionally, this program should determine the year-end adjustments for variances between the actual and budgeted and make the appropriate adjustments to each carrier's account.
- ✓ A reporting program that determines the age of the injuries and generates an "aging report" that reports all temporary and permanent partial disability cases that are over 500 weeks old and applicable statistical data required by the new Act.

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**Summary of  
Management's  
Comments**

The Director of DOES stated that the Department appreciates efforts expended by the auditors in conducting their investigations, but that disclosures outlined in the report clearly symbolize a misunderstanding of many of the operational components and processes associated with the Office of Workers' Compensation (OWC). However, he concurred with most of the conditions noted and indicated that Management has remained active in designing and/or instituting corrective action measures.

The Director also disclosed that the case cited by the auditors involving treatment in Switzerland was an isolated incident resulting from an adjudicatory action.





Full text of Management response to the findings and recommendation is attached to this report as Appendix B.

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**Evaluation of  
Management's  
Comments**

DOES Management concurred with most of the conditions noted and recommendations made in this report. DOES Management also indicated that new procedures are being implemented to correct the conditions noted.

We recommend that the Office of the Inspector General perform a follow-up review to ensure the implementation of the recommendations and new controls put in place by DOES to improve efficiency and effectiveness.

Our evaluation of the Management comments on each of the findings and recommendations are listed as Appendix A.

*Appendix A*  
*Evaluation of Management Comments*  
*on findings and recommendation*

**Review of Workers' Compensation Program within the DOES  
Summary of Findings and Evaluation of Management Response**

**Exhibit A**

<i><b>Finding</b></i>	<i><b>Effect (So What?)</b></i>	<i><b>Recommendation</b></i>	<i><b>DOES Response</b></i>	<i><b>Evaluation of DOES Response</b></i>	<i><b>Finding Status</b></i>
1. Funds due from insurance carriers and self-insured employers are not assessed and collected in a timely manner.	DOES continue to use tax payers' monies to pay for program expenses in violation of DC Law 12-229.	Provision of adequate procedures to ensure that the assessment notices are sent out in a timely manner to ensure collection of assessments no later than October 1 of each fiscal year.	DOES management concurs with the finding. Processes associated with the yearly up-front assessment will be completed in a manner to ensure that letters are forwarded to carriers/self-insured employers no later than September 1.	DOES management response is adequate. However, our review and observation during fieldwork indicated that necessary policy and procedures are not in place at the time of our review to facilitate data collection that allows for what management is proposing.	Resolved. Follow-up review is recommended to ensure full implementation of the recommendations.

**Review of Workers' Compensation Program within the DOES  
Summary of Findings and Evaluation of Management Response**

**Exhibit A**

<i><b>Finding</b></i>	<i><b>Effect (So What?)</b></i>	<i><b>Recommendation</b></i>	<i><b>DOES Response</b></i>	<i><b>Evaluation of DOES Response</b></i>	<i><b>Finding Status</b></i>
2a. Significant weaknesses in the payment process such as a failure to (1) assess the reasonableness of claimant's medical and indemnity expenses and (2) verify the claimant's continued eligibility for program benefits.	Increases program cost and affects delivery of service.	Implement procedures to ensure that the medical and indemnity expenses are reasonable, paying particular attention to claims outside of normal parameters. Justification supporting payment of large and unusual claims must be documented in the claim file.	Management did not concur with finding. DOES asserted that there have not been a lack of periodic reviews nor a failure to assess the reasonableness of awards of compensation. Management indicated that medical and indemnity expenses questioned in the report resulted from court mandate	DOES management response is adequate. New information provided by management in their response to the draft report suggests that the problem noted in the report was isolated rather than systemic.	Resolved. Follow review recommended to ensure control over the payment process.